

# Retention Bonus

CareFirst

Title	Target Award	Percent Eligible	Eligible #	Total Payout
Senior Vice President	1.5	100%	8	\$ 2,895,000
Vice President	1.0	100%	23	\$ 3,877,000
Director	0.5	30%	36	\$ 1,697,000
			67	\$ 8,469,000

## *Invest in 60 - 70 Key Management Associates*

- *Maintain Stability of Operations and Value of Company*
- *Provide Management Support for Transaction*
- *Minimize Risk of Talent Defection*

Paid Upon Closing or If Deal is Not Completed

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# Transaction Related Goals

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- ☐ Complete the Transaction
- ☐ Retain Senior Management Pre-Closing
- ☐ Retain Senior Management Post Closing
- ☐ Fairly Compensate Senior Management in a Timely Manner

## *Purpose:*

- Incentive to Close a Favorable Transaction
- Align the Interests of Management with the Interests of Stakeholders
- Facilitate Smooth Integration

*Payment Made 12 months After Closing*

*Amend EVP Contracts - Defer Change of Control Decision for 12 months*



# Merger Incentive and Excise Tax

CareFirst

Participants	#	% of Price	Total Payout
CEO	1	0.7%	\$ 9,100,000
Executive Vice Presidents	<u>6</u>	<u>1.2%</u>	<u>\$ 15,600,000</u>
	7	1.9%	\$ 24,700,000
Excise Tax			\$ 16,657,480

*Payment Made 12 months After Closing*

*Amend EVP Contracts - Defer Change of Control Decision for 12 months*

***Issue for Discussion:***

*Retention Bonus if Deal is Not Completed*

*Payment Made 12 Months After Transaction is Abandoned (2.5-3.5x Base Salary)*

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# Compensation Related Costs

CareFirst

	<u>CareFirst</u>	<u>Pacific</u>	<u>Difference</u>
<b>Associate Programs</b>			
Base Pay	\$ 251.5	\$ 251.5	\$ 0
Incentives	\$ 21.8	\$ 11.4	\$ (10.4)
Benefits	\$ 91.0	\$ 72.0	\$ (19.0)
<b>Executives Compensation</b>			
LTIP	\$ 19.1	\$ 19.1	\$ 0
SERP	\$ 22.6	\$ 22.6	\$ 0
Change of Control	\$ 14.0	\$ 14.0	\$ 0
Retention	\$ 8.5	\$ 8.5	\$ 0
Merger Incentive *	\$ 24.7	\$ -	\$ (24.7)
Excise Tax	\$ 30.7	\$ 14.0	\$ (16.7)
<b>Total</b>	<b>\$ 483.9</b>	<b>\$ 413.1</b>	<b>\$ (70.8)</b>

\* Merger Incentive and associated Excise Tax and Gross-up are under review at Pacific



**Potential Change of Control Payments (Projected as of April 1, 2003)**

EXECUTIVE	Jews	Wolf	Kaplan	Devou	Chaney	Picciotto	Vecchioni	Felber*	Other Executives	Total
<b>Prior Earned Compensation</b>										
Accrued Qualified Pension Benefit	0.14	0.17	-	0.14	0.14	0.51	0.31	0.46	-	1.87
Accrued Supplemental Pension Benefit	5.25	2.88	0.48	1.25	2.00	1.44	1.04	1.40	-	15.75
Accrued Actual Long Term Incentive Grants	1.56	0.52	0.51	0.46	0.44	0.34	0.32	0.26	1.42	5.84
Prior LTIP Deferred Compensation Awards	1.38	0.57	0.15	0.42	0.36	0.31	0.21	0.21	1.08	4.68
<b>Total Prior Earned Compensation</b>	<b>8.34</b>	<b>4.15</b>	<b>1.15</b>	<b>2.26</b>	<b>2.93</b>	<b>2.61</b>	<b>1.88</b>	<b>2.33</b>	<b>2.50</b>	<b>28.13</b>
<b>Payments Due Upon Actual Termination of Employment in Connection with a COC and Substantial Diminution of Duties</b>										
Multiple of Salary and Annual Incentive	3.05	0.86	0.73	0.68	0.64	0.56	0.50	0.51	0.96	8.50
Payment for Non-Compete	2.18	0.45	0.39	0.38	0.36	0.31	0.28	0.30	0.00	4.64
Pro-rated Current Year Annual Incentive	0.16	0.05	0.04	0.04	0.04	0.03	0.03	0.03	-	0.42
Non-Accrued Long Term Incentive Grants	2.39	0.76	0.75	0.67	0.65	0.50	0.47	0.37	2.07	8.63
Increase in Supplemental Pension Benefit	2.31	-	1.69	0.98	-	-	-	-	-	4.98
Personal and Health Benefits	0.30	0.03	0.03	0.03	0.03	0.03	0.03	0.01	-	0.51
<b>Total Payments</b>	<b>10.40</b>	<b>2.16</b>	<b>3.64</b>	<b>2.78</b>	<b>1.71</b>	<b>1.43</b>	<b>1.31</b>	<b>1.22</b>	<b>3.03</b>	<b>27.68</b>
<b>Total Contractual Obligation</b>	<b>18.74</b>	<b>6.31</b>	<b>4.78</b>	<b>5.03</b>	<b>4.64</b>	<b>4.04</b>	<b>3.19</b>	<b>3.55</b>	<b>5.54</b>	<b>55.81</b>
Merger Incentive (Assuming \$1.3 Billion Transaction)	9.10	3.60	2.30	2.30	2.30	2.80	2.30	-	-	24.70
Retention Bonus for Key Management	-	-	-	-	-	-	-	0.45	8.05	8.50
<b>Total Top Management Payout (Not including Excise Tax)</b>	<b>27.84</b>	<b>9.91</b>	<b>7.08</b>	<b>7.33</b>	<b>6.94</b>	<b>6.84</b>	<b>5.49</b>	<b>4.00</b>	<b>13.59</b>	<b>89.01</b>
<b>Total Excise Tax and Gross-Up for Total Top Management Payout</b>	<b>11.61</b>	<b>3.40</b>	<b>3.35</b>	<b>2.98</b>	<b>3.10</b>	<b>2.11</b>	<b>2.39</b>	<b>0.63</b>	<b>1.10</b>	<b>30.66</b>
<b>Grand Total Top Management Payout</b>	<b>39.45</b>	<b>13.31</b>	<b>10.43</b>	<b>10.31</b>	<b>10.04</b>	<b>8.95</b>	<b>7.88</b>	<b>4.63</b>	<b>14.69</b>	<b>119.67</b>

\* M. Felber - SVP, Sales has current employment contract and is eligible for Retention Bonus but not Merger Incentive.

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